Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Message Text

CONFIDENTIAL

PAGE 01 STATE 076789

61
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---------- 125130
P 042057Z APR 75
FM SECSTATE WASHDC
TO AMEMBASSY KINGSTON PRIORITY

C O N F I D E N T I A L STATE 076789

E.O. 11652: GDS

TAGS: PFOR JM US

SUBJECT: AMBASSADOR'S MEETING WITH PRIME MINISTER MANLEY
REF: KINGSTON 1181

1. THE DEPARTMENT HAS PREPARED SUGGESTED TALKING POINTS ON THE NEW ECONOMIC ORDER FOR AMBASSADOR TO USE ON AN "IF ASKED BASIS" IN HIS CONVERSATION WITH PRIME MINISTER MANLEY ON APRIL 9. NO WRITTEN MEMORANDUM SHOULD BE LEFT WITH MANLEY. IN ADDITION TO THESE TALKING POINTS, AMBASSADOR SHOULD REVIEW THE MEMORANDUM OF CONVERSATION REPORTING DEPUTY ASSISTANT SECRETARY BOEKER'S MEETING OF JANUARY 6, 1975 WITH FORMER AMBASSADOR FLETCHER.

2. SUGGESTED TALKING POINTS (FOR USE ON IF ASKED BASIS)

A....WITH REGARD TO THE NEW WORLD ECONOMIC ORDER, THE U.S. DESIRES A GLOBAL ECONOMIC SYSTEM WHICH WILL PROMOTE THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 076789

EXPANSION OF THE WORLD ECONOMY, EQUITABLY BENEFITTING

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

BOTH THE DEVELOPING AND DEVELOPED COUNTRIES. THE U.S. IS SYMPATHETIC TO THE ECONOMIC PLIGHT OF THE DEVELOPING COUNTRIES AND IS WORKING FOR INCREASED ECONOMIC DEVELOPMENT OF THE DEVELOPING COUNTRIES. THROUGH AN ENLARGED PROGRAM OF FOOD AID AND AGRICULTURAL ASSISTANCE, AND THROUGH GENERAL MULTILATERAL AND BILATERAL ASSISTANCE WE STRONGLY

BELIEVE THAT ANY NECESSARY CHANGES AND ADJUSTMENTS IN THE GLOBAL SYSTEM SHOULD BE EFFECTED THROUGH COOPERATION, NOT CONFRONTATION.

B....THE U.S. HAS EXPRESSED SERIOUS RESERVATIONS ON SEVERAL ELEMENTS ADVANCED IN THE NEW INTERNATIONAL ECONOMIC ORDER AS CALLED FOR BY THE UNGA SIXTH SPECIAL SESSION'S DECLARATION OF PRINCIPLE AND PROGRAM OF ACTION. OUR OBJECTIONS TO THESE PARTICULAR ELEMENTS (WHICH INCLUDE CONSUMER ENDORSEMENT OF PRODUCER ASSOCIATIONS (IN WHICH THEY WOULD NOT BE REPRESENTED), INDEXATION (TO FREEZE PRICE RELATIONSHIPS), MARKET SHARING, SDR AID LINK) ARE BASED ON OUR VIEW THAT THE IMPLEMENTATION OF THESE PRINCIPLES AND OBJECTIVES WOULD NOT RESULT IN AN EQUITABLE AND EXPANDING GLOBAL ECONOMIC SYSTEM. THIS IS NOT TO SAY THAT WE BELIEVE THERE ARE NO SERIOUS PROBLEMS, BUT RATHER THAT THE CAUSES OF THE PROBLEMS AND EFFECTIVE AND LASTING SOLUTIONS TO THEM NEED TO BE APPROACHED IN A CONSTRUCTIVE AND COOPERATIVE FASHION.

C....ALTHOUGH THE U.S. BASICALLY BELIEVES THAT IN MOST CASES THE MARKET FORCES OF SUPPLY AND DEMAND ARE THE MOST EFFECTIVE ALLOCATOR OF RESOURCES, WE RECOGNIZE THAT THE MARKET SYSTEM DOES NOT OPERATE PERFECTLY FOR PARTICULAR COMMODITIES FOR A VARIETY OF REASONS. OUR POLICY HAS BEEN TO CONSIDER DEALING WITH COMMODITY PROBLEMS ON A CASE-BY-CASE BASIS AND WHERE WE HAVE JUDGED MARKET ARRANGEMENTS WARRANTED, FEASIBLE AND ECONOMICALLY VIABLE WE HAVE SUPPORTED THEM. (WE ARE CURRENTLY PARTICIPATING ACTIVELY IN THE NEGOTIATIONS FOR A NEW COFFEE AGREEMENT AND EXPECT TO PARTICIPATE FULLY IN NEGOTIATIONS FOR NEW COCOA,TIN, AND SUGAR AGREEMENTS. WE HAVE PAID FAVORABLE SUGAR PRICES UNDER OUR OWN IMPORT PROGRAM FOR MANY YEARS.
CONFIDENTIAL

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WE WILL SERIOUSLY CONSIDER PARTICIPATION IN NEGOTIATIONS OF ARRANGEMENTS FOR OTHER COMMODITIES IF THEY ARE SCHEDULED AND IF IT APPEARS THAT THE PROPOSED ARRANGE-MENTS MAY BE FEASIBLE AND ECONOMICALLY VIABLE.) (FYI-BAU'ITE IS NOT NOR IS IT LIKELY TO BE CONSIDERED FOR INCLUSION ' IN A COMMODITY TYPE AGREEMENT, END FYI). IN ANY EVENT, WE CONSIDER THAT THE DEVELOPMENT AND IMPLEMENTATION OF COMMODITY TRADE ARRANGEMENTS MUST REFLECT THE INTERESTS

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

OF PRODUCERS AND CONSUMERS.

3. INDEXATION
A....THE U.S. SUPPORTS THE FUNDAMENTAL OBJECTIVE OF FOSTERING ACCELERATION OF ECONOMIC DEVELOPMENTOFTHE DEVELOPING COUNTRIES AND REALIZES THAT THIS, IN PART, REQUIRES THAT THEY BE ABLE TO IMPORT GOODS ESSENTIALTO

THEIR DEVELOPMENT, BUT WE HAVE SERIOUS POLICY DIFFICULTIES AND PRACTICAL DOUBTS ABOUT THE USE OF INDEXATION TO SUPPORT THIS OBJECTIVE.

B.... A FEW OF THE SERIOUS POLICY ISSUES INCLUDE:
(1) THE INEFFICIENCY AND INEQUITY OF RESOURCE TRANSFERS EFFECTED BY INDEXATION. A COMMODITY-BY-COMMODITY APPROACH TO INDEXATION IS GENERALLY CONSIDERED TO BE MORE FEASIBLE THAN A COUNTRY-BASED APPROACH. THERE ARE MAJOR TECHNICAL DIFFICULTIES INVOLVED IN DEVELOPING INDEXES WHICH WOULD BE BOTH EQUITABLE AND RELEVANT TO THE IMPORT STRUCTURES OF A NUMBER OF DIVERGE COUNTRIES. INDEXATION ON A COMMODITY-BY-COMMODITY BASIS COULD RESULT IN A TRANSFER OF REASOURCES AS A FORM OF AID, WITH THE DISTRIBUTION OF SUCH AID BEING MADE ACCORDING TO THE RELATIVE SIZE OF A COUNTRY'S EXPORTS OF THE PRODUCT IN QUESTION, NOT ON THE BASIS OF CONSIDERED DEVELOPMENTAL REQUIREMENTS. IT COULD PENALIZE THOSE LDCS WHICH HAVE DONE THE MOST TO REDUCE EXCESSIVE DEPENDENCE ON TRADITIONAL PRODUCTS THROUGH DIVERSIFICATION.

(2) ECONOMIC INEFFICIENCY RESULTING FROM FREEZING THE PATTERN OF WORLD PRODUCTION AND TRADE. INDEXED PRICES WOULD CEASE TO REFLECT PRODUCTIVITY OR OTHER COMPARATIVE ADVANTAGES WHICH TEND TO HOLD DOWN INFLATION AND MAKE CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 076789

POSSIBLE THE SHARING OF THE BENEFIT OF NEW EFFICIENT MEANS OF PRODUCTION BY ALL. ALSO, EXTENSIVE MARKET REGULATION WOULD BE NECESSARY TO IMPLEMENT INDEXATION, INCLUDING THE INHIBITION OF THE ENTRY OF NEW PRODUCERS AND THE NORMAL DEVELOPMENT OF SUBSTITUTES, AGAIN TENDING TO RAISE COSTS OF FINAL PRODUCTS TO ALL CONSUMERS, RICH AND POOR.

C.... IN ADDITION TO THESE POLICY DIFFICULTIES, THERE ARE THE VERY DIFFICULT NEGOTIATING AND STATISTICAL PROBLEMS OF TRANSLATING AGREED PRINCIPLES INTO OPERATIONAL MEASURES, AS WELL AS THE PRACTICAL PROBLEMS OF IMPLEMENTATION. THESE PROBLEMS INCLUDE THE SELECTION OF INITIAL REFERENCE PRICES, THE LACK OF REPRESENTATIVE UNIT VALUES FOR MANUFACTURED GOODS, THE DIFFICULTIES IN ADJUSTING UNIT VALUES TO REFLECT QUALITY CHANGES OR DIFFERENT METHODS OF PRICING

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

FOR THE SAME CATEGORY. (THE MODEL T AND THE CADILLAC ARE BOTH CLASSED AS AUTOMOBILE IN AGGREGATE STATISTICAL DATA). PROBLEMS WOULD ALSO ARISE IN ANY EFFORT AT ENFORCEMENT OF ANY INDEXATION SCHEME SINCE THERE WOULD UNDOUBTEDLY BE MANY INSTANCES, ESPECIALLY IN PERIODS OF SURPLUS, IN WHICH BUYERS AND SELLERS WOULDBE TEMPTED TO TRADE OUTSIDE THE INDEXATION SCHEME. THIS HAS BEEN THENEARLY CONSTANT HISTORICAL PRACTICE.

D....THERE ARE ALSO QUESTIONS REGARDING THE ECONOMIC EFFECTS OF INDEXATION, E.G., EFFECTS ON INFLATION AND BALANCE OF PAYMENTS. FURTHERMORE, THE DEVELOPING COUNTRIES ARE CONSUMERS AS WELL AS PRODUCERS AND MANY INDUSTRIALIZED COUNTRIES ARE PRODUCERS AS WELL AS CONSUMERS. THUS INDEXATION MIGHT VERY WELL EXACERBATE THE ECONOMIC PROBLEMS OF MANY DEVELOPING COUNTRIES.

E.... EXTENSIVE DISCUSSIONS OF "INDEXATION" IN THE ABSTRACT, WHICH HAVE BEEN TAKING PLACE IN INTERNATIONAL FORA SUCH AS THE UNGA, UNCTAD, GROUP OF 77, ETC. HAVE TAKEN ON AN AURA OF POLITICALCENTRALIZATION OVER PRINCIPLES, BUT WHEN TACKLED IN BODIES ATTEMPTING TO DEAL WITH SPECIFIC COMMODITIES THE PRACTICAL AND TECHNICAL OBJECTIONS TO INDEXATION OF PRICES HAVE BEEN MUCH MORE READILY RECOGNIZED BY PRODUCING COUNTRY AS WELL AS THE DEVELOPED COUNTRY REPRESENTATIVES.
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4. (FYI. ALTHOUGH WE AND OTHER COUNTRIES MAY, AT THE REQUEST OF OPEC, BE DISCUSSING INDEXATION OF OIL PRICES IN THE UPCOMING PRODUCER/CONSUMER CONFERENCE ON OIL, ANY DECISION WITH RESPECT TO OIL PRICE INDEXATION MUST TAKE INTO ACCOUNT THEBROADER CONSIDERATION OF OTHER COMMODITIES AND ANY PRECEDENTS WHICH MIGHT BE SET.)

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

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Margaret P. Grafeld
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